



STATE OF CALIFORNIA

GAVIN NEWSOM, Governor **FILED**

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298

02/17/23

11:54 AM

A2203002

February 17, 2023

**Agenda ID #21384**  
**Ratesetting**

TO PARTIES OF RECORD IN APPLICATION 22-03-002:

This is the proposed decision of Administrative Law Judge Gerald Kelly. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's April 6, 2023 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties to the proceeding may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE

Michelle Cooke

Acting Chief Administrative Law Judge

AES:smt

Attachment

Decision **PROPOSED DECISION OF ALJ KELLY** (Mailed 2/17/2023)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Joint Application of California-American Water Company (U210W) and Bass Lake Water Company (U190W) for Order Authorizing Bass Lake Water Company to sell and California-American Water to Purchase the Water Utility Assets of Bass Lake Water Company.

Application 22-03-002

**DECISION AUTHORIZING THE PURCHASE OF WATER  
UTILITY ASSETS BY CALIFORNIA-AMERICAN  
WATER COMPANY**

## TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
DECISION AUTHORIZING THE PURCHASE OF WATER .....	1
UTILITY ASSETS BY CALIFORNIA-AMERICAN .....	1
WATER COMPANY .....	1
Summary .....	2
1. Background .....	3
1.1. Procedural Background .....	3
1.2. Background on Bass Lake Water Company .....	4
1.3. Background on California American Water Company .....	4
2. Issues Before the Commission .....	5
3. Discussion and Analysis .....	7
3.1. Compliance with Applicable Law, Rules, and Commission Decision .....	7
3.2. Approval of the Asset Purchase Agreement and Amendment; Purchase Price in the Rate Base; and Recording the Acquisition on a Net Basis .....	10
3.3. Expansion of Cal-Am's CPCN; Consolidation of Bass Lake into Cal-Am's Northern Division; and Integration of Bass Lake into the Northern District and Corporate Office .....	14
3.4. Request to File Standard CPI-U Rate Increases for Bass Lake Until Bass Lake is Consolidated for Ratemaking Purposes into Cal-Am's Northern District in 2024 .....	16
3.5. Request for the Bass Lake Acquisition Contingency Memorandum Account or BLACMA .....	16
3.6. Request to Create the Bass Lake Acquisition Transaction Cost Memorandum Account or BLTCMA .....	18
3.7. Inclusion of Bass Lake in the Existing Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions .....	21
3.8. Request for the Establishment of a BLMIMA .....	22
3.9. CEQA Review is Not Required for This Transaction .....	23
3.10. Alignment with the Commission's ESJ Action Plan .....	24
3.11. Safety .....	27
4. Admission of Testimony and Motion for Confidential Treatment .....	28
5. Conclusion .....	30
6. Comments on Proposed Decision .....	31
7. Assignment of Proceeding .....	31
Findings of Fact .....	31
Conclusions of Law .....	33
O R D E R .....	36

**DECISION AUTHORIZING THE PURCHASE OF WATER  
UTILITY ASSETS BY CALIFORNIA-AMERICAN  
WATER COMPANY**

**Summary**

This decision authorizes California-American Water Company (Cal-Am) to purchase the assets of Bass Lake Water Company (Bass Lake) for a total of \$5,923,933. Included in the purchase price is the Commission-approved rate base offset of \$923,933 for the Pines Tank Replacement Project. The purchase price is authorized to be included in Cal-Am's rate base.

Cal-Am is authorized to expand its Certificate of Public Convenience and Necessity to immediately include Bass Lake into its Northern Division service area for operational purposes. This decision declines to approve Cal-Am's request to allocate the costs associated with this acquisition as this request is better suited for a general rate case. It also denies Cal-Am's request to file a standard Consumer Price Index for All Urban Consumers rate increases for Bass Lake as this is contrary to Cal-Am's assertion that it will not immediately increase rates upon approval of the acquisition. Beginning January 1, 2024, rates for Bass Lake customers will be determined in Cal-Am's general rate case, which was filed on July 1, 2022.

This decision denies the establishment of the Bass Lake Acquisition Contingency Memorandum Account (BLACMA), which would have captured the differences between revenues billed at current Bass Lake and Cal-Am rates and revenues that would have been billed under the final rates if Bass Lake were fully consolidated for ratemaking purposes upon the close of the acquisition. Cal-Am is authorized to establish the Bass Lake Transaction Cost Memorandum Account (BLTCMA) with an effective date of March 1, 2022, which is the date the joint Application was filed. Costs in the BLTCMA shall be recorded pursuant to

Commission Standard Practice U27W with rate treatment determined in Cal-Am's subsequent GRC.

Cal-Am is authorized to establish the Bass Lake Meter Installation Memorandum Account (BLMIMA) to track incremental operations and maintenance expenses associated with meter installations in Bass Lake's service area prior to ratemaking integration of Bass Lake into Cal-Am's authorized revenue requirement. Cal-Am is also authorized to track the costs of addressing any required environmental improvements and compliance issues in the already established memorandum account established in previous acquisitions.

This decision promotes the Commission's nine goals set forth in the Environmental and Social Justice Action Plan. Additionally, the acquisition of Bass Lake by Cal-Am will help promote and improve the safety of the Bass Lake system. Finally, the acquisition will not have an impact on the environment and therefore is not subject to review under the California Environmental Quality Act.

This decision closes the proceeding.

## **1. Background**

### **1.1. Procedural Background**

On March 1, 2022, California-American Water Company (Cal-Am) and Bass Lake Water Company (Bass Lake) jointly filed Application (A.) 22-03-002 seeking authorization from the Commission for Bass Lake to sell and Cal-Am to purchase the water utility assets of Bass Lake and other related approvals (Application). The Application was filed pursuant to Sections 851 through 854 and Sections 2718 through 2720 of the Public Utilities (Pub. Util.) Code,

Commission Decision (D.) 99-10-064 and D.20-08-047, Article 2 and Rule 3.6 of the Commission's Rules of Practice and Procedure.<sup>1</sup>

There were no protests or responses filed in this proceeding. The Application appeared on the Commission's daily calendar on March 7, 2022. On March 17, 2022, Administrative Law Judge (ALJ) Resolution 176-3504 determined that this matter is ratesetting. A prehearing conference (PHC) was held remotely on June 3, 2022. On July 12, 2022, the Scoping Memo and Ruling was issued.

### **1.2. Background on Bass Lake Water Company**

Bass Lake is a Class C water company regulated by the Commission. Bass Lake owns and operates water production, storage, and distribution facilities which consist of wells, reservoirs, meters, mains, distribution lines, and other facilities and properties.<sup>2</sup> The system serves approximately 1,000 customers in Madera County, California, with most of the customers being unmetered.<sup>3</sup> As a Class C utility, Bass Lake's revenue requirement is based on rate of margin rather than rate of return.<sup>4</sup>

### **1.3. Background on California American Water Company**

Cal-Am is a Class A regulated water and wastewater company which provides water and/or wastewater utility services in parts of San Diego,

---

<sup>1</sup> Any future reference to Rules refers to the Commission's Rules of Practice and Procedure, unless stated otherwise.

<sup>2</sup> Application at 4.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Id.* at 5.

Los Angeles, Ventura, Monterey, Sonoma, Yolo, Sacramento, Merced, and Placer counties.<sup>5</sup> Cal-Am serves a customer base of approximately 680,000 people in 50 communities.<sup>6</sup>

## **2. Issues Before the Commission**

The issues before the Commission in this proceeding are as follows:

1. Does the Application comply with applicable law, rules, and Commission decisions?
2. Should the Commission approve the Asset Purchase Agreement and Amendment, which includes a Cash Purchase Price of five million dollars and the Commission-approved rate base offset of \$923,933 for the Pines Tank Replacement Project as set forth in the Amendment for a total price of \$5,923,933?
3. Should the Commission authorize Cal-Am to expand its Certificate of Public Convenience and Necessity (CPCN) so the company may assume all public utility responsibilities for the operation and ownership of the water utility operations in Bass Lake's current service area?
4. Should the Commission establish the rate base of the acquired system in this proceeding to be the full purchase price paid by Cal-Am for Bass Lake's assets covered by the Asset Purchase Agreement?
5. Should the Commission authorize Cal-Am to record the acquisition on a net basis consistent with generally accepted accounting principles?
6. Should the Commission allow Cal-Am to immediately consolidate Bass Lake into Cal-Am's Northern District for operational purposes and maintaining existing Commission-approved rates and charges in effect at the time the acquisition closes?
7. Should the Commission authorize Cal-Am's request to file

---

<sup>5</sup> *Ibid.*

<sup>6</sup> *Ibid.*

- standard Consumer Price Index for All Urban Consumers (CPI-U) rate increases for Bass Lake as allowed for Class C utilities until Bass Lake is consolidated for rate making purposes into Cal-Am's Northern District in 2024, following the decision in Cal-Am's next general rate case (GRC)?
8. Should the Commission allow Cal-Am to integrate Bass Lake into the Northern District and Corporate Office for ratemaking purposes as of January 1, 2024, such that the rates for Bass Lake customers beginning January 1, 2024, would be determined in Cal-Am's Water GRC set for filing on July 1, 2022?
  9. Should the Commission authorize Cal-Am's request to create the Bass Lake Acquisition Contingency Memorandum Account (BLACMA)?
  10. Should the Commission authorize Cal-Am's request to create the Bass Lake Transaction Cost Memorandum Account (BLTCMA) and what should the effective date of this memorandum account be?
  11. Should the Commission authorize Cal-Am's request for the establishment of a Bass Lake Meter Installation Memorandum Account (BLMIMA)?
  12. Should the Commission approve Cal-Am's request to allow tracking of costs of addressing any required environmental improvements and compliance issues in the already established memorandum account related to the same issues for the Dunnigan, Geyserville, Meadowbrook, Rio Plaza, Fruitridge Vista, Hillview, and East Pasadena acquisitions?
  13. Does the Application align with or impact the achievement of any of the nine goals of the Commission's Environmental and Social Justice (ESJ) Action Plan?
  14. Are there any safety issues raised by the Application which the Commission must address?



### **3. Discussion and Analysis**

#### **3.1. Compliance with Applicable Law, Rules, and Commission Decision**

Pub. Util. Code Sections 851–854 require advance approval of this Application by the Commission before an acquisition or purchase transaction occurs. Proposed water utility ownership changes are additionally reviewed under Pub. Util. Code Sections 2718-2720 which require that the Commission use fair market value when determining how much of the purchase price of the acquired water company is to be incorporated into the acquiring, more financially secure water company's rate base.

In evaluating whether an acquisition should be approved, the Commission will consider among other things, whether the transaction will improve the financial condition of the public utility, will maintain or improve the management of the utility and the quality of service to the utility's ratepayers, will be fair to employees of the utility, and will be generally beneficial to the community served by the public utility.

Cal-Am's size, experience, and resources give it a distinct advantage of being able to effectively and efficiently replace or upgrade systems to meet increasingly stringent state and federal mandates.<sup>7</sup> The purchase of Bass Lake by Cal-Am will help to ensure compliance with California's requirements to upgrade water infrastructure, as required by Pub. Util. Code Section 2719, *et seq.* (the Public Water System Investment and Consolidation Act of 1997 (Consolidation Act)). Because Cal-Am is an experienced large utility it can address potential problems quickly before they get worse. Additionally, Cal-Am has employees with in-house expertise capable of addressing issues quickly and

---

<sup>7</sup> Cal-Am Exhibit 2 at 5 and 25.

at potential cost savings and these employees could be relied upon to address any issues that may arise in the Bass Lake service territory.<sup>8</sup> Furthermore, Cal-Am has a larger customer base so any infrastructure improvements that are needed at Bass Lake may have a smaller impact on customers because they can be spread across the larger customer base.

Customer service will also be improved for Bass Lake customers because Cal-Am's Hillview service territory is approximately seven miles from Bass Lake. Customers in Bass Lake will have access to Cal-Am's extensive network of customer service centers.<sup>9</sup> Customers will also have access to 24-hour emergency contacts and web-based self-service options, which will provide more effective assistance in the event of an emergency.<sup>10</sup> Furthermore, Bass Lake customers will have access to Cal-Am's extensive water conservation educational materials, which will help to promote water conservation in Bass Lake's service territory.

After the acquisition, customers in the Bass Lake system will have access to on-line self-service options for many services.<sup>11</sup> Additionally, after the acquisition of the Bass Lake system, customers will be able to enroll in paperless billing, have multiple payment channels, and be able to reach call centers which have multi-lingual representatives.<sup>12</sup>

Cal-Am also has an excellent record of compliance with water quality requirements. Cal-Am's drinking water distribution and treatment operators will

---

<sup>8</sup> *Id.* at 25.

<sup>9</sup> Cal-Am Exhibit 1 at 3-4.

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*

monitor and operate the Bass Lake system to ensure compliance with expanding regulatory and environmental oversight activities.<sup>13</sup>

As noted above, the acquisition of the Bass Lake system will also help to promote conservation of water. Customers will have access to conservation experts, as well as rebates for water saving efforts such as turf-replacement and purchasing water-saving appliances.<sup>14</sup> At the conclusion of the acquisition, Bass Lake customers will have access to free water-saving devices such as showerheads and hose nozzles.<sup>15</sup> Water conservation efforts will also be improved after the close of the acquisition because Cal-Am intends to install meters on Bass Lake's unmetered connections. Currently, Bass Lake has 1,013 service connections and only 44 of these connections are metered service.<sup>16</sup>

The Application complies with Pub. Util. Code Sections 851-854, which requires public utilities, including water system corporations, to seek Commission approval before selling, leasing, acquiring, or otherwise taking control of any property necessary or useful in the performance of its duties to the public. We find that the acquisition of the Bass Lake system by Cal-Am is in the public interest.

Cal-Am is a Class A regulated water utility who has operated under the regulatory jurisdiction of the Commission for many years. There can be no doubt that acquisition by Cal-Am will benefit the Bass Lake system. As noted above, Cal-Am has a network of water quality specialists who will help ensure Bass Lake customers have access to safe water. The acquisition will improve

---

<sup>13</sup> *Ibid.*

<sup>14</sup> Cal-Am Exhibit 2 at 32.

<sup>15</sup> *Ibid.*

<sup>16</sup> Cal-Am Exhibit 1 at 4-5.

service quality and offer many operational and safety advantages to Bass Lake customers. Accordingly, we find that the Application complies with the Commission's requirements and therefore, Cal-Am's Application should be approved.

**3.2. Approval of the Asset Purchase Agreement and Amendment; Purchase Price in the Rate Base; and Recording the Acquisition on a Net Basis**

Cal-Am requests the Commission to authorize a rate base equal to the total final purchase price consisting of (*i.e.*, \$5,923,933 plus adjustments if any) Bass Lake's assets. Cal-Am also requests that the purchase price be included in the rate base and that Cal-Am be authorized to record the acquisition on a net basis consistent with generally accepted accounting practices.

The Consolidation Act added Sections 2718, 2719, and 2720 to the Pub. Util. Code. The Commission's Order Instituting Rulemaking 97-10-048, filed October 22, 1997, examined acquisitions and mergers of water companies. The final decision in that proceeding, D.99-10-064, approved the terms of a settlement agreement as the guidelines for mergers and acquisitions of water utilities in accordance with Pub. Util. Code Sections 2718, *et seq.*

Pub. Util Code Section 2719 contains the Legislature's finding and declaration that: (1) "Public water systems are faced with the need to replace or upgrade ... infrastructure to meet increasingly stringent ... laws and regulations"; (2) "Increasing amounts of capital are required to finance the necessary investment in public water system infrastructure"; (3) "Scale economies are achievable in the operation of public water systems"; and (4) "Providing water corporations with an incentive to achieve these scale economies will provide benefits to ratepayers."

As a public water system, the proposed sale/acquisition of Bass Lake is governed in part by Pub. Util. Code Section 2720(a), which deals specifically with valuation of public water systems acquired by water corporations. It states:

- a. The Commission shall use the standard of fair market value when establishing the rate base value for the distribution system of a public water system acquired by a water corporation. This standard shall be used for ratesetting.
  - (1) For purposes of this section, “public water system” shall have the same meaning as set forth in Section 116275 of the Health and Safety Code.
  - (2) For purposes of this section, “fair market value” shall have the same meaning as set forth in [S]ection 1263.320 of the Code of Civil Procedure.<sup>17</sup>

Health and Safety Code Section 116275(h) defines “public water system” as follows:

- b. “Public water system” means a system for the provision of water for human consumption through pipes or other constructed conveyances that has 15 or more service connections or regularly serves at least 25 individuals daily at least 60 days out of the year. A public water system includes the following:
  - (1) Any collection, treatment, storage, and distribution facilities under control of the operator of the system that are used primarily in connection with the system.

---

<sup>17</sup> Section 1263.320 of the Code of Civil Procedure (Civ. Pro.) sets forth two options for determining fair market value - (a) the highest price on the date of valuation that would be agreed to by a seller, being willing to sell... and a buyer, being ready, willing and able to buy...with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available, and (b) [for property taken for which there is no relevant, comparable market] the value on the date of valuation as determined by any method of valuation that is just and equitable.

- (2) Any collection or pretreatment storage facilities not under the control of the operator that are used primarily in connection with the system.
- (3) Any water system that treats water on behalf of one or more public water systems for the purpose of rendering it safe for human consumption.

The complete terms of the purchase are set forth in the Asset Purchase Agreement (APA) dated August 30, 2019, and Amended on October 14, 2021.<sup>18</sup> Specifically, Cal-Am will acquire the assets of Bass Lake, which consists of the water distribution system consisting of wells, mains, distribution lines, and other facilities and properties necessary and useful for the operation of Bass Lake's operation, including for water production, treatment, storage, and distribution.

Pursuant to the APA, Cal-Am will purchase Bass Lake for \$5,923,933, which Cal-Am and Bass Lake asserts is less than the Replacement Cost New Less Depreciation (RCNLD) value.<sup>19</sup> Willamette Management Group completed a valuation of the assets that comprise the Bass Lake system.<sup>20</sup> The qualifications of the appraisers are set forth in the testimony of Kevin M. Zanni.<sup>21</sup> Based on valuation theory, employed methodology, assumptions, and analyses, the RCNLD of the Bass Lake system is \$11.6 million as of November 1, 2021.<sup>22</sup>

The Consolidation Act requires that the Commission use the fair market value as the rate base value of the acquired distribution system. The purchase price as described above fits the definition of "fair market value" set forth in

---

<sup>18</sup> Cal-Am Exhibit 2C (Confidential) at Attachments 4.a and 4.b.

<sup>19</sup> Cal-Am Exhibit 4C (Confidential) at Attachment 2 at Table 1.

<sup>20</sup> *Id.* at Attachment 1.

<sup>21</sup> *Id.* at Attachment 2.

<sup>22</sup> *Ibid.*

Code of Civ. Pro. Section 1263.320(a). The purchase price was established through the negotiations of a willing buyer and a willing seller, each with full knowledge of all the uses and purposes for which Bass Lake's assets are reasonably adaptable and available. Therefore, Pub. Util. Code Section 2720 supports the inclusion in rate base of the full purchase price.

The purchase price, determined in conformance with this definition of fair market value, is less than the replacement cost of the Bass Lake water system. However, Pub. Util. Code Section 2720 would have allowed a purchase price more than replacement costs to be included in rate base if the excess amounts were "fair and reasonable." In determining whether such excess amounts are "fair and reasonable," Pub. Util. Code Section 2720 requires that the Commission "shall consider whether the acquisition of the public water system will improve water system reliability, whether the ability of the water system to comply with health and safety regulations is improved, whether the water corporation by acquiring the public water system achieve efficiencies and economies of scale that would otherwise not be available, and whether the effect on existing customers of the water corporation and the acquired public water system is fair and reasonable." This transaction meets the standard set forth in Pub. Util. Code Section 2720. Therefore, we find the purchase price of \$5,923,933 to be the fair market value of the Bass Lake system. Included in the purchase price is the Commission-approved rate base offset of \$923,933 for the Pines Tank Replacement Project. The purchase price of \$5,923,933 plus or minus any adjustment amounts is reasonable and shall be included in the rate base.<sup>23</sup>

---

<sup>23</sup> Adjustments are covered in the APA at 2 and Exhibit 2 of the APA at 33 under the definition of "cash price."

Cal-Am is authorized to record the acquisition on a net basis in accordance with generally accepted accounting practices.

**3.3. Expansion of Cal-Am's CPCN;  
Consolidation of Bass Lake into Cal- Am's  
Northern Division; and Integration of  
Bass Lake into the Northern District  
and Corporate Office**

Cal-Am requests that the Commission allow it to immediately consolidate the Bass Lake system into its Northern Division for operational purposes, for it to expand its CPCN to include the ownership and operation of the Bass Lake system, and that Cal-Am be allowed to integrate Bass Lake into the Northern and Corporate Office for ratemaking purposes in Cal-Am's next GRC. Cal-Am's Northern Division currently includes the following service territories: Sacramento area, Dunnigan, Geyserville, Hillview, Larkfield, Meadowbrook, and Fruitridge Vista service areas.<sup>24</sup> Once the acquisition is approved, the operation of the Bass Lake system will be out of Cal-Am's nearby Hillview District Operations Office.<sup>25</sup> Hillview is in Cal-Am's Northern Division and as Cal-Am proposes to operate Bass Lake out of the Hillview's District Operations Office, it makes sense for Bass Lake to be consolidated into Cal-Am's Northern Division. Therefore, we authorize Cal-Am to immediately consolidate the Bass Lake system with its Northern District service area for operational purposes. Cal-Am is also authorized to maintain existing Commission-approved rates and charges in effect for the Bass Lake system at the time the acquisition closes.

---

<sup>24</sup> <https://www.amwater.com/caaw/customer-service-billing/water-rates/sacramento-district>.

<sup>25</sup> Cal-Am Exhibit 2 at 13.



Prior to assuming the responsibilities of Bass Lake, it will be necessary for Cal-Am to expand its current CPCN to include the Bass Lake Service Area. Expanding its CPCN will allow Cal-Am to assume all public utility responsibilities for the operation and ownership of water utility operations in Bass Lake's current service area. Therefore, we approve Cal-Am's request to expand its CPCN to include the ownership and operation of the Bass Lake system. Upon issuance of a new operating permit from the State Water Resources Control Board (SWRCB), Cal-Am's CPCN should be expanded to include the Bass Lake service area.

Cal-Am proposes that the integration of Bass Lake for ratemaking purposes take place in the next scheduled GRC.<sup>26</sup> Cal-Am also proposes that the Commission allocate \$4.45 million of the purchase price of the Bass Lake system to Cal-Am's Northern District and \$1.48 million be allocated to Cal-Am's Corporate Office.<sup>27</sup> The Commission's Public Advocates Office is not a party to this acquisition application. We find it inappropriate to determine the allocation of the cost of the purchase of the Bass Lake system based solely on the recommendations of Cal-Am alone. We decline to decide on the allocation of the purchase price in this decision as that is better suited for Cal-Am's GRC.

---

<sup>26</sup> *Id.* at 9. (At the time of the filing of the Application in this proceeding, Cal-Am proposes that it be the GRC Application filed on July 1, 2022, which is A.22-07-001.)

<sup>27</sup> *Id.* at 10.

**3.4. Request to File Standard CPI-U Rate Increases for Bass Lake Until Bass Lake is Consolidated for Ratemaking Purposes into Cal-Am's Northern District in 2024**

Cal-Am asserts in its testimony that it will not change rates for Bass Lake customers immediately after the acquisition.<sup>28</sup> Cal-Am's request for a CPI-U rate increase is clearly contrary to the assertion that it does not intend to immediately increase rates for Bass Lake customers. The Commission previously denied Cal-Am's request to immediately increase rates in another acquisition application by stating that "it is appropriate to raise rates within the context of a GRC."<sup>29</sup> We also note that after the Application in this matter was filed, Bass Lake filed for a CPI increase on August 30, 2022, which was approved by Advice Letter-88 on November 18, 2022 with an effective date of September 29, 2022.<sup>30</sup> Allowing Cal-Am to file a 2023 CPI increase would be duplicative of Bass Lake's approved CPI increase. Accordingly, we deny Cal-Am's request to file a CPI rate increase for Bass Lake.

**3.5. Request for the Bass Lake Acquisition Contingency Memorandum Account or BLACMA**

Cal-Am requests authority to create a Bass Lake Acquisition Contingency Memorandum Account to track lost revenue until Bass Lake is integrated for ratemaking purposes.<sup>31</sup> Cal-Am asserts that this account would track the difference between revenues billed at current Bass Lake rates and revenues that would have been billed under the final rates effective January 1, 2021 if the

---

<sup>28</sup> *Id.* at 9.

<sup>29</sup> D.19-12-038 at 17.

<sup>30</sup> *See*, AL-WTC-190.

<sup>31</sup> Cal-Am Exhibit 2 at 16-18.

Bass Lake system were integrated for ratemaking following the decision in Cal-Am's 2019 GRC.<sup>32</sup> Cal-Am contends that the revenues will consist of, but are not limited to, return on investment, ad valorem tax, depreciation, general office costs, other taxes and fees, and incremental operating expenses.

First, we note that Cal-Am's request is to make the effective date of this Contingency Account be the date of APA, which is dated before the Application in this matter was filed. If granted, this would clearly be retroactive ratemaking. Second, this is not the first time that Cal-Am has made a retroactive request in an acquisition application. Cal-Am made similar arguments in A.20-04-003 and A.20-04-017.

We acknowledge that we are not rigidly bound to precedent, however the two most recent prior Commission decisions approving Cal-Am's acquisitions found that there was no need for a Contingency Account and denied such requests.<sup>33</sup> The same reasoning in D.21-08-002 and D.22-08-005 applies here.

In D.21-08-002, the Commission reasoned that, as an experienced and:

"...competent entity Cal-Am should have recognized that the price it would pay would include the attendant risks and opportunities offered by Warring's current and near-term operations and revenue stream as well as the open-ended opportunity for a future revenue stream as a part of Cal-Am's overall operations."<sup>34</sup>

For the above reasons, we decline to grant Cal-Am's request to establish a Contingency Memorandum Account.

---

<sup>32</sup> *Ibid.*

<sup>33</sup> D.21-08-002, Finding of Fact (FoF) 20, OP 8. (See also, D.22-08-005 at 31.)

<sup>34</sup> D.21-08-002 at 34.

### **3.6. Request to Create the Bass Lake Acquisition Transaction Cost Memorandum Account or BLTCMA**

In its Application, Cal-Am requested the Commission authorize the establishment of the BLTCMA to track all transaction costs associated with the acquisition. Cal-Am contends that with any acquisition, there are certain transaction costs which are inevitable. Cal-Am requests to track costs and seek recovery for all transaction associated expenses such as legal, engineering, surveying, the appraisal, noticing and other professional activities necessary to complete the proposed transaction.<sup>35</sup>

We note that Cal-Am did not include any specific amounts or discussion of these costs in the Application or its testimony. Cal-Am simply made a request to track all costs associated with the transaction. It was not until the assigned ALJ issued a ruling requesting specific details about “all transaction associated expenses” that Cal-Am provided any specific details about the alleged costs.<sup>36</sup>

Cal-Am requests that the start date of this account be October 1, 2018. Also, when asked by the ALJ in the August 4, 2022, email ruling why the Commission should consider approving any memorandum account prior to the date of the Application, Cal-Am’s response was that it should be approved on the date they requested because “it is the most reasonable approach.”<sup>37</sup> Cal-Am also asserts that the approval date should be as requested because the Commission has flexibility to approve the date of the memorandum account.<sup>38</sup>

---

<sup>35</sup> Cal-Am Exhibit 2 at 18.

<sup>36</sup> ALJ E-mail Ruling issued August 4, 2022, and Cal-Am’s Response was dated August 26, 2022. Cal-Am’s Response is also included as Exhibit 7 in this proceeding.

<sup>37</sup> Cal-Am Exhibit 7 at 2.

<sup>38</sup> *Id.* at 7.

Furthermore, Cal-Am believes that because the Commission previously granted Cal-Am's request to establish an acquisition memorandum account before the date of an application in D.19-04-015, that it should do so again.<sup>39</sup>

For the Commission to grant this request, it must meet the requirements for memorandum accounts as set forth in Standard Practice U27W. Standard Practice U27W requires the following:

- The item is caused by an event of exceptional nature not under the utility's control;
- It could not have been reasonably foreseen in the utility's last GRC and will occur before the utility's next scheduled rate case;
- It is of a substantial nature in the amount of money involved; and
- The ratepayer will benefit by the memorandum account treatment.

Here, the expenses are caused by an event outside of Cal-Am's control. When a smaller water system is acquired, there are inherent transaction costs. These costs have been and will be incurred between rate cases.

The expenses that will be incurred happen between rate cycles. As noted above, the transaction costs include outsourced services, such as legal, engineering, surveying, the appraisal, noticing, and other professional activities. These costs will likely be substantial.

The purchase of Bass Lake promotes the Commission's and SWRCB's goals and directives which encourage the purchase of smaller water utilities. Ratepayers will benefit from the memorandum account as it allows for the tracking of costs for future prudence and reasonableness review by the Commission prior to cost recovery.

---

<sup>39</sup> *Ibid.*

The Commission has previously authorized similar memorandum accounts in other acquisitions.<sup>40</sup> We grant Cal-Am's request for the establishment of the BLTCMA. We remind Cal-Am that the establishment of a memorandum account is not a guarantee that all costs recorded will be recoverable. Cal-Am is required to keep a detailed accounting of all such costs so that these costs can be scrutinized and evaluated to ensure that they are reasonable. Cal-Am shall file a Tier 1 Advice Letter to establish the BLTCMA.

The only remaining issued regarding the BLTCMA is the effective date for the establishment of the BLTCMA. The Application requests authority to track both past and future costs associated with the acquisition. We are concerned that allowing costs to be tracked prior to the effective date of the Application could be retroactive ratemaking. Previously, we have allowed the establishment of similar memorandum accounts to be effective as of the date of the filing of the application.<sup>41</sup> Furthermore, per Pub. Util. Code Section 1731(a), the Commission may set the effective date of a decision before the date the decision is issued.

In D.22-04-010, we previously addressed the issue where an acquisition application requested a transaction memorandum account prior to the date of the application. In that decision we found that granting an effective date of a transaction memorandum account before the application date would be retroactive ratemaking.<sup>42</sup> The issue of establishing the effective date of an acquisition memorandum account as of the date of the application in D.22-04-010 was upheld on rehearing in D.22-09-027. As noted in D.22-09-027, the

---

<sup>40</sup> D.19-04-015 and D.19-12-038.

<sup>41</sup> D.19-09-026 at 10, D.18-11-051 at 8, D.18-06-029 at 11-15, D.19-01-019 at 6-8, 10, and D.21-02-009.

<sup>42</sup> D.22-04-010 at 28.

Commission's "role is to balance the interest of ratepayers and utilities."<sup>43</sup>

Approving a memorandum account once the purchase application is filed gives the Commission the opportunity to establish reporting and financial controls at the onset of the proceeding.<sup>44</sup> Memorandum accounts must be handled fairly with respect to ratepayer interests.<sup>45</sup>

As set forth above, we must balance the interest of ratepayers and must ensure that memorandum accounts are handled fairly with ratepayer interests. Establishing a memorandum account prior to the date of the filing of an application is retroactive ratemaking. Accordingly, we find that the effective date of the BLTCMA shall be March 1, 2022, which is the date the Application was filed. The BLTCMA shall be closed once recovery is sought.

**3.7. Inclusion of Bass Lake in the  
Existing Memorandum Account for  
Environmental Improvements and  
Compliance Issues for Acquisitions**

Cal-Am's request to expand the currently authorized memorandum account entitled "The Memorandum Account for Environmental Improvements and Compliance issues for Acquisitions" is granted. This is consistent with decisions in prior acquisitions and is in the public interest. As with all memorandum accounts, it is subject to review before any recovery is included in rates.

---

<sup>43</sup> D.22-09-027 at 3.

<sup>44</sup> D.19-01-019 at 6.

<sup>45</sup> D.22-09-027 at 5.

### **3.8. Request for the Establishment of a BLMIMA**

Cal-Am requests approval to create the BLMIMA to track incremental operations and maintenance expenses associated with meter installations in Bass Lake's service area prior to ratemaking integration of Bass Lake into Cal-Am's authorized revenue requirement. Bass Lake has approximately 1,013 service connections with 44 meters that are manually read quarterly.<sup>46</sup> The remaining connections are unmetered and billed at flat rates. Pub. Util. Code Section 781(a)(2) requires the unmetered connections to be replaced with meters by January 1, 2025. Additionally, 41 of the current 44 meters were installed before 2002. Cal-Am contends that pursuant to General Order (GO) 103-A, no meter shall remain in service more than 20 years without testing.<sup>47</sup> Cal-Am typically replaces rather than test and reinstall meters covered by the 20-year testing requirements.<sup>48</sup> Cal-Am will include a capital improvement project in its GRC, but notes that those rates will not be effective until 2024.<sup>49</sup> Cal-Am is concerned that there will be an extended period of time without cost recovery for the 969 unmetered connections that will require a metered connection installed pursuant to Pub. Util. Code Section 781(a)(2) and the additional 41 meters that will need to be replaced pursuant to GO 103-A. Cal-Am estimates that the cost per meter installation is approximately \$5,800 and asserts that the total cost will be \$5.858 million.<sup>50</sup>

---

<sup>46</sup> Cal-Am Exhibit 1 at 4-5.

<sup>47</sup> Cal-Am Exhibit 2 at 21. (*See also*, GO 103-A Section IV6.A.)

<sup>48</sup> *Ibid.*

<sup>49</sup> *Ibid.*

<sup>50</sup> *Id.* at 22-23.



Evaluating this request under Standard Practice U27W as discussed above, we find that we find that the installation of the meters is an event of exceptional nature and will occur between rate cycles. The installation of over 1,000 meters is a substantial expense. We also find that ratepayers will benefit from the creation of the memorandum account as these costs will be spread across 72,000 customers in Cal-Am's Northern District rather than the approximately 1,000 customers who make up the Bass Lake system.

The Commission has previously authorized a similar memorandum account in another acquisition.<sup>51</sup> We grant Cal-Am's request for the establishment of the BLMIMA. We remind Cal-Am that the establishment of a memorandum account is not a guarantee that all costs recorded will be recoverable. Cal-Am is required to keep a detailed accounting of all such costs so that these costs can be scrutinized and evaluated to ensure that they are reasonable. Cal-Am shall file a Tier 1 Advice Letter to establish the BLMIMA.

### **3.9. CEQA Review is Not Required for This Transaction**

Rule 2.4 requires applications to address the applicability of the CEQA to the proposed project or transaction that is the subject of the application. The transaction described in this application is not subject to CEQA because it does not constitute a "project" within the meaning of CEQA. Projects under CEQA are those specifically defined as any "activity which may cause either a direct physical change [to] the environment, or a reasonably foreseeable indirect physical change in the environment."<sup>52</sup>

---

<sup>51</sup> D.19-12-038.

<sup>52</sup> California Public Resources Code Section 21065.

This application seeks Commission approval of the acquisition of assets from Bass Lake by Cal-Am. Once sold and transferred, there will be no change in the operation of the assets. They will be used and operated in the same manner and for the same purposes for which they are currently being used. The Commission has consistently held such a transfer of control and operation of existing water system facilities does not result in any changes to the environment, and thus, an application seeking authorization for such a transaction is not subject to CEQA.<sup>53</sup>

Since no “direct or reasonably foreseeable indirect physical change in the environment” will occur because of the proposed transaction, it therefore is not subject to the provisions of CEQA.

### **3.10. Alignment with the Commission’s ESJ Action Plan**

On April 7, 2022, the Commission adopted version 2.0 of its ESJ Action Plan as a comprehensive strategy and framework for addressing ESJ issues in each proceeding. “Environmental Justice” means “the fair treatment of people of all races, cultures, and incomes with respect to the development, adoption, and enforcement of environmental laws, regulations, and policies.”<sup>54</sup>

The Commission’s ESJ Action Plan identifies existing inequities and proposes actions for how the Commission can use its regulatory authority to address health and safety, consumer protection, program benefits, and enforcement to encompass all the industries it regulates, including energy, water, and communications programs. Goal 3 of the Commission’s ESJ Action Plan is to improve access to high-quality water, communications, and transportation

---

<sup>53</sup> D.13-01-033 and D.11-03-016.

<sup>54</sup> <https://www.cpuc.ca.gov/ESJactionplan/>.

services for ESJ communities.<sup>55</sup> For water utilities, objectives for this goal include (1) consolidating small water systems; and (2) expanding low-income programs.<sup>56</sup>

With respect to the first objective, the Commission's ESJ Action Plan recognizes that consolidation is an important tool to ensure safe and reliable water. The Commission has previously recognized that "Smaller water companies often do not have the resources or expertise to operate in full compliance with increasingly stringent and complex water quality regulations. Many water companies are too small to be viable in the long-term, raising questions as to whether they will be able to continue to provide clean and reliable water in the future."<sup>57</sup>

Cal-Am asserts it will bring economies of scale, internal expertise, access to resources, and greater knowledge and experience to operating the Bass Lake assets.<sup>58</sup> Cal-Am believes that this will help maintain the highest standards of water quality and improve infrastructure development.<sup>59</sup> Cal-Am contends that its size, financial strength, and the breadth of expertise of its employees allow it to implement strong conservation programs and set rates that balance investment, conservation, and affordability.<sup>60</sup> In addition, Cal-Am believes it can spread costs to operate, maintain, and invest over a much larger customer base.<sup>61</sup>

---

<sup>55</sup> *Id.*

<sup>56</sup> *Id.*

<sup>57</sup> Commission 2010 Water Action Plan at 9.

<sup>58</sup> Cal-Am Exhibit 1 at 3-4 and Exhibit 2 at 26-28.

<sup>59</sup> *Ibid.*

<sup>60</sup> *Ibid.*

<sup>61</sup> *Ibid.*

Cal-Am's resources will also be used to maintain the water quality and level of customer service in Bass Lake.<sup>62</sup> We agree with Cal-Am's assertions on these points.

Related to the second objective, Cal-Am has a well-established low-income support program to help customers with their monthly bills.<sup>63</sup> As part of the program, Cal-Am coordinates with energy companies to identify low-income customers who qualify, which is important because some qualified customers may be unaware of such programs or unsure how to subscribe to them.<sup>64</sup> Given that many Californians are continuing to experience financial difficulties due to the COVID-19 pandemic, providing access to Cal-Am's low-income support program is a significant benefit, particularly for the most vulnerable customers.

Cal-Am's community outreach, supplier diversity program, and multilingual capability also provide benefits to ESJ communities.<sup>65</sup> Cal-Am has a six-member Inclusion and Diversity Advisory Council which encourages open conversations addressing diversity, inclusion, racial justice, and diversity training.<sup>66</sup> Cal-Am also provides regular training to its employees concerning diversity and inclusion. Furthermore, Cal-Am's supplier diversity program encourages Cal-Am in meeting and exceeding the goals of GO 156 to purchase from diverse vendors (Woman, Minority, Disabled Veteran, and LGBTQ).<sup>67</sup> Cal-Am also conducts diversity fairs to provide opportunities for vendors.

---

<sup>62</sup> *Ibid.*

<sup>63</sup> Cal-Am Exhibit 2 at 31.

<sup>64</sup> *Ibid.*

<sup>65</sup> Cal-Am Exhibit 1 at 7.

<sup>66</sup> *Ibid.*

<sup>67</sup> <https://www.amwater.com/caaw/supplierdiversity>.

Finally, Cal-Am employs multilingual office and field staff who speak both Spanish and English to serve the primary languages spoken in the communities it serves.

There is a clearly a public interest benefit for Cal-Am to acquire the Bass Lake water system and leverage their customer service, operations experience, and resources to continue to maintain the water system's reliability, to improve compliance with health and safety regulations, and to achieve economies of scale that may not be possible for a system of Bass Lake's relatively small size. Cal-Am's continued commitment to community outreach and the supplier diversity program is also a benefit to the public. Therefore, we conclude that approval of this Application will help promote and further the Commission's ESJ Action Plan goals.

### **3.11. Safety**

Prior to approving this Application, the Commission must ensure that there are no safety issues or concerns present. From the information contained in the Application and testimony, Cal-Am takes safety issues seriously. Cal-Am has a robust safety program with a focus on leading indicators. Cal-Am's Near Miss Program is an example of this in action.<sup>68</sup> With this program employees are encouraged to report incidents that could have resulted in an injury or accident but did not in that instance.<sup>69</sup>

Prior examples of reports under this program include reporting minor electrical problems to improper use of personal protective equipment by contractors.<sup>70</sup> Instances are reportable via telephone, computer, or hand-held

---

<sup>68</sup> Cal-Am Exhibit 1 at 6-7.

<sup>69</sup> *Ibid.*

<sup>70</sup> *Ibid.*

device and are logged by Cal-Am after corrective action is taken.<sup>71</sup> Additionally, Cal-Am has a Safety Lead Program where field employees are empowered to do job-site safety checks and also present safety courses to their co-workers.<sup>72</sup>

Cal-Am as a Class A regulated water company also has experience providing safe drinking water and has qualified staff who would be capable of addressing any water quality issues should they arise.

We are convinced that the acquisition of Bass Lake by Cal-Am will help maintain the safety of the Bass Lake system. We find that the acquisition promotes safety by helping to ensure that Bass Lake customers have long-term access to safe and reliable water. We also find that Cal-Am promotes safety culture amongst its employees and will continue to do so with the Bass Lake system. Accordingly, there are no safety issues which need to be addressed in this Application.

#### **4. Admission of Testimony and Motion for Confidential Treatment**

Since evidentiary hearings were not held in A.22-03-002, there was no opportunity to enter prepared testimony into the record. To fairly assess the record, it is necessary to include all testimony served by Cal-Am and Bass Lake. In its motion of September 1, 2022, Cal-Am requested, pursuant to Rule 13.8(c), that the Commission receive the Exhibits into the record of A.22-03-002. Cal-Am also requested confidential treatment of two of its Exhibits. Therefore, we identify the versions of Cal-Am's and Bass Lake's supporting testimony as

---

<sup>71</sup> *Ibid.*

<sup>72</sup> *Ibid.*

Exhibits Cal-Am-1, -2, -2.1, -2C, -2.1C, -3, -4, -4C, -5, -7 and Bass Lake-1.<sup>73</sup> Given the necessity of Cal-Am's and Bass Lake's testimony to our assessment of the proposals put forth, we admit into evidence the versions of Cal-Am's and Bass Lake's Exhibits mentioned above.

Cal-Am also requests that the detailed information in Exhibits 2C, 2.1C, and 4C be sealed pursuant to California Evidence Code 1060 and Government Code 6254(e). Commission Rules 11.4 and 11.5 address Commission rules respecting confidential materials. Rule 11.4 addresses a request to seal documents that have been filed, while Rule 11.5 addresses sealing all or part of an evidentiary record. In addition, GO 66-C provides definitions and guidance regarding public and confidential records provided to and requested from the Commission.

Cal-Am requests that Exhibits 2C, 2.1C, and 4C be kept confidential because they contain confidential information. The Commission received no objection to the request for confidential treatment.

We have granted similar requests for confidential treatment and do so again here in limited fashion. Although Cal-Am requested all the information in Exhibit 4C to be confidential, it was necessary for the Commission to discuss in a

---

<sup>73</sup> Exhibit Cal-Am-1 - Direct Testimony of S. Audie Foster; Exhibit Cal-Am-2 - Direct Testimony of Stephen Wesley Owens; Exhibit Cal-Am-2.1 - Corrected Direct Testimony of Stephen Wesley Owens; Cal-Am-2C - Confidential Direct Testimony of Stephen Wesley Owens; Cal-Am-2.1C - Confidential Direct Testimony of Stephen Wesley Owens; Exhibit Cal-Am-3 - Direct Testimony of Matthew Payne; Exhibit Cal-Am-4 - Direct Testimony of Kevin M. Zanni; Exhibit Cal-Am-4C - Confidential Direct Testimony of Kevin M. Zanni; Exhibit Cal-Am-5 - Direct Testimony of Michael Wademan; Exhibit Cal-Am-7 - Cal-Am Compliance filing and Bass Lake-1 - Direct Testimony of Frank Brommenschenkel. When Cal-Am submitted its Compliance Filing, it inadvertently misnumbered this as Exhibit 7. Therefore, there is no Exhibit 6 in this proceeding. Additionally, on October 12, 2022, the ALJ sought clarification of discrepancies in Cal-Am-2 and Cal-Am-2C. On November 3, 2022, Cal-Am corrected the discrepancies in these two exhibits and filed Cal-Am-2.1 and Cal-Am-2.1C to correct the discrepancies.

general fashion to reveal the RCNLD and other aspects of the appraisal to reveal the fair market value determined by the appraiser and the RCNLD. However, it is appropriate to keep detailed charts and inputs in these three exhibits under seal. We therefore authorize the confidential treatment, as set forth in the ordering paragraphs of this decision.

## **5. Conclusion**

The request to purchase the assets of Bass Lake for \$5,923,933, plus adjustments, if any, is approved. As such, Cal-Am is authorized to expand its CPCN to include Bass Lake into its Northern District Service Area. Cal-Am is authorized to integrate the Bass Lake system into its Northern District Service Area for ratemaking purposes as of January 1, 2024. Beginning January 1, 2024, rates for Bass Lake customers will be determined in Cal-Am's GRC which was filed on July 1, 2022. The allocation of the purchase price of the Bass Lake acquisition shall also be determined in Cal-Am's GRC.

Cal-Am is not authorized to file a CPI-U increase as Bass Lake recently filed a CPI-U increase which was approved on November 18, 2022, with an effective date of September 29, 2022.. Nor is Cal-Am authorized to create the BLACMA. However, Cal-Am is authorized to create the BLTCMA with an effective date of March 1, 2022, which is the date the application was filed. Cal-Am is also authorized to create the BLMIMA and include the Bass Lake acquisition in the previously authorized and existing Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions.

The purchase of Bass Lake by Cal-Am will help promote the safety of the Bass Lake system by helping to ensure safe and reliable access to clean water. Additionally, this transaction helps to further the Commission's ESJ Action Plan.



**6. Comments on Proposed Decision**

The proposed decision of ALJ Gerald F. Kelly in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_ and reply comments were filed on \_\_\_\_\_.

**7. Assignment of Proceeding**

Genevieve Shiroma is the assigned Commissioner and Gerald F. Kelly is the assigned ALJ in this proceeding.

**Findings of Fact**

1. Bass Lake is a Class C public water company regulated by the Commission with approximately 1,000 customers in Madera County, California with most of its customers being unmetered.

2. Cal-Am is a Class A regulated water and wastewater company which provides water and/or wastewater utility services in parts of San Diego, Los Angeles, Ventura, Monterey, Sonoma, Yolo, Sacramento, Merced, and Placer counties. Cal-Am serves approximately 680,000 customers in 50 communities.

3. The Commission has received no substantive comments regarding the proposed acquisition in this proceeding.

4. There is no opposition to the acquisition of Bass Lake by Cal-Am.

5. Acquisition of Bass Lake is desirable, due to Cal-Am's experience in providing safe and reliable water services in the State of California under the regulatory jurisdiction of the Commission.

6. The negotiated purchase price of \$5,923,933 for Bass Lake's assets is reasonable and represents the fair market value.

7. Bass Lake filed for a CPI-U increase on August 30, 2022. This request was approved on November 18, 2022, with an effective date of September 29, 2022.

8. Upon Commission approval of the proposed acquisition and after December 31, 2023, Bass Lake customers would be subject to the Commission approved rates and charges established in Cal-Am's GRC.

9. Cal-Am filed its most recent GRC application on July 1, 2022, for test year 2024.

10. Bass Lake can be operationally included Cal-Am's Northern Division.

11. Cal-Am's Northern Division currently includes the following service territories: Sacramento area, Dunnigan, Geyserville, Hillview, Larkfield, Meadowbrook, and Fruitridge Vista service areas.

12. Once the acquisition is approved, the operation of the Bass Lake system will be out of Cal-Am's nearby Hillview District Operations Office.

13. The Proposed Acquisition will result in efficiencies and economies of scale which would benefit the existing Bass Lake and Cal-Am ratepayers.

14. The proposed purchase price was supported by the Joint Applicants' appraisal, which was based on the replacement cost new less depreciation method.

15. As a large Class A water utility, Cal-Am is in a superior position to achieve economies of scale, resources, and has knowledge to better service the water needs of the Bass Lake service area compared to Bass Lake's current operations.

16. Cal-Am has no need for a new Bass Lake Acquisition Contingency Memorandum Account.

17. Cal-Am needs a new Bass Lake Transaction Cost Memorandum Account.

18. Cal-Am needs a new Bass Lake Meter Installation Memorandum Account.

19. Cal-Am needs to include Bass Lake in an existing Memorandum Account for Environmental Improvement and Compliance Issues for Acquisitions.

20. The cost allocation and rate design impacts of the acquisition can be deferred to Cal-Am's GRC.

21. The Proposed Acquisition will enhance the health and safety of Bass Lake customers.

22. The Proposed Acquisition is not subject to CEQA as it can be seen with some certainty that there is no possibility that the transaction in question may have a significant effect on the environment.

23. The transaction helps further the Commission's ESJ Action Plan policy goals.

24. The transaction enhances the safety of Bass Lake's customers.

25. Cal-Am requested the admittance of its exhibits into evidence pursuant to Rule 13.8(c).

26. There is no Exhibit 6 in this proceeding.

### **Conclusions of Law**

1. The proposed transaction is subject to Pub. Util. Code Sections 851-854, requiring the Applicants to seek Commission approval regarding the transfer of utility property.

2. The Application and the proposed transaction comply with Pub. Util. Code Sections 851-854.

3. The proposed transaction is subject to Pub. Util. Code Section 2718, *et seq.*

4. Due to its size, fiscal backing, familiarity, and sophistication, Cal-Am is in a superior position to use economies of scale, resources, and knowledge to better service the water needs of Bass Lake customers; therefore, the proposed transaction complies with Pub. Util. Code Section 2718, *et seq.*

5. Cal-Am's acquisition of Bass Lake is in the public interest as the acquisition will maintain or improve the financial condition and management of the utility, will improve the quality of service to the utility's ratepayers, will be fair to employees of the utility, and generally beneficial to the community served by the public utility.

6. The proposed transaction is subject to Pub. Util. Code Section 2720, requiring the Applicant to seek Commission assessment of the fair market value of the acquisition assets.

7. The proposed acquisition purchase price of \$5,923,933 is the fair market value of the acquisition assets.

8. The proposed transaction is reasonable and appropriate under the applicable statutory scheme and the rules and requirements of the Commission.

9. Cal-Am should be authorized to purchase Bass Lake's assets, and thereby obtain complete ownership of Bass Lake and the entirety of its water system and all its assets.

10. Pursuant to California Health and Safety Code Section 116525(a), when a change in ownership of a public water system occurs, the buyer of the public water system must apply for a new operating permit.

11. Pursuant to California Health and Safety Code Section 116525(a), Cal-Am should apply for and obtain from the SWRCB an appropriate operating permit to operate Bass Lake.

12. Authority for Cal-Am to operate Bass Lake should be conditioned upon Cal-Am's receipt of an operating permit from the SWRCB.

13. Within 30 days of Cal-Am's receipt of a new operating permit from the SWRCB, Cal-Am should file a copy of the SWRCB permit in this docket.

14. Effective upon Cal-Am's receipt of a new operating permit from the SWRCB, Cal-Am's CPCN should be expanded to include the Bass Lake service area.

15. Cal-Am's request to consolidate the Bass Lake system into Cal-Am's Northern Division for operational purposes should be granted.

16. Within 10 days of the completion of Cal-Am's acquisition of Bass Lake, Cal-Am should notify the Commission's Director of the Water Division in writing that the transaction has been completed.

17. Cal-Am should be authorized to establish the BLTCMA and BLMIMA memorandum accounts.

18. Cal-Am should be authorized to include Bass Lake in the previously established and existing Environmental Improvements and Compliance Issues memorandum account.

19. Cal-Am should not be authorized to create the BLACMA memorandum account.

20. Consideration of Cal-Am's proposal to allocate the rate base between the Northern Division and its Corporate Office, should be deferred to Cal-Am's GRC.

21. Until Cal-Am's next GRC, , the rates in the Bass Lake service area should remain in effect.

22. The proposed acquisition of Bass Lake by Cal-Am is exempt from CEQA, and no further environmental assessment or review is required as to this transaction.

23. Cal-Am's request to receive public and confidential testimony into the record should be granted.

24. A.22-03-002 should be closed.

**O R D E R****IT IS ORDERED** that:

1. California-American Water Company is authorized to purchase the assets of Bass Lake Water Company (Bass Lake) and thereby obtain complete ownership of Bass Lake and the entirety of its water system and all its assets.

2. California-American Water Company (Cal-Am) is authorized to include the \$5,923,933 Bass Lake Water Company purchase price in Cal-Am's rate base.

3. California-American Water Company, in its general rate case, shall consolidate Bass Lake Water Company in its Northern Division for ratemaking purposes.

4. California-American Water Company (Cal-Am) must apply for and obtain from the State Water Resources Control Board (SWRCB) a permit to operate the Bass Lake Water Company (Bass Lake) water system, and authority for Cal-Am to operate the Bass Lake water system is conditioned upon Cal-Am's receipt of an operating permit from the SWRCB.

5. When the State Water Resources Control Board grants California-American Water Company (Cal-Am) a permit to operate the Bass Lake Water Company (Bass Lake) water system, Cal-Am shall immediately consolidate the Bass Lake Water Company into its Northern Division for operational purposes.

6. Within 30 days from receipt of its operating permit, California-American Water Company shall file a Tier 1 Advice Letter to expand its Certificate of Public Convenience and Necessity to include and add the Bass Lake Water Company service area and rates to its tariffs.

7. California-American Water Company is authorized to file a Tier 1 Advice Letter to establish a Bass Lake Transaction Memorandum Account consistent with this Decision.

8. California-American Water Company is authorized to file a Tier 1 Advice Letter to establish a Bass Lake Meter Installation Memorandum Account.

9. California-American Water Company shall file a Tier 1 Advice Letter to include Bass Lake Water Company in its existing Memorandum Account for Environmental Improvement and Compliance Issues consistent with this Decision.

10. California-American Water Company is not authorized to establish a Bass Lake Acquisition Contingency Memorandum Account.

11. Within 10 days of the completion of the sale of the Bass Lake Water Company to California-American Water Company (Cal-Am), Cal-Am must notify the Commission's Director of the Water Division in writing that the sale has been completed.

12. Until California-American Water Company receives a final decision in its 2024 general rate case proceeding, the rates in Bass Lake service area shall remain in effect.

13. California-American Water Company is bound by all Commission decisions, rules, and regulations applicable to regulated water utilities.

14. The prepared testimony of California-American Water Company (Cal-Am), consisting of Exhibit Cal-Am-1 - Direct Testimony of S. Audie Foster; Exhibit Cal-Am-2 - Direct Testimony of Stephen Wesley Owens; Exhibit Cal-Am-2.1 Corrected Direct Testimony of Stephen Wesley Owens; Cal-Am-2C - Confidential Direct Testimony of Stephen Wesley Owens; Exhibit Cal-Am 2.1C - Corrected Confidential Direct Testimony of Stephen Wesley Owens; Exhibit Cal-Am-3 - Direct Testimony of Matthew Payne; Exhibit Cal-Am-4 - Direct Testimony of Kevin M. Zanni; Cal-Am-4C - Confidential Direct Testimony of

Kevin M. Zanni Exhibit Cal-Am-5 - Direct Testimony of Michael Wademan; and Exhibit Cal-Am-7 - Cal-Am Compliance filing shall be received into evidence.

15. The prepared testimony of Bass Lake Water Company (Bass Lake), consisting of Bass Lake-1 Direct Testimony of Frank Brommenschenkel is received into evidence.

16. The confidential prepared testimony of California-American Water Company (Cal-Am), consisting of confidential versions of Exhibits - Cal-Am-2C - Confidential Direct Testimony of Stephen Wesley Owens, Cal-Am-2.1C - Corrected Confidential Direct Testimony of Stephen Wesley Owens and Cal-Am-4C Confidential Direct Testimony of Kevin M. Zanni filed by Cal-Am are sealed, pursuant to Rule 11.5 of the Commission's Rules of Practice and Procedure.

17. The confidential prepared testimony of California-American Water Company (Cal-Am), consisting of confidential versions of Exhibits - Cal-Am-2C - Confidential Direct Testimony of Stephen Wesley Owens, Exhibit Cal-Am 2.1C - Corrected Confidential Direct Testimony of Stephen Wesley Owens, and Cal-Am-4C Confidential Direct Testimony of Kevin M. Zanni are granted confidential treatment for a period of three years from the date of this order. During this three-year period, this information may be viewed by Commission staff, the assigned Commissioner and staff, the assigned Administrative Law Judge (ALJ), the Assistant Chief ALJ, and the Chief ALJ, or any others which parties have agreed to in writing or as ordered by a court of competent jurisdiction. If Cal-Am believes that it is necessary for this information to remain under seal for longer than three years, Cal-Am may file a motion providing a justification for a further extension at least 30 days before the expiration of the three-year period granted by this order.

18. Today's decision is effective immediately.



19. Application 22-03-002 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California